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Message Text

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ACTION NEA-07

INFO OCT-01 SS-14 ISO-00 TRSE-00 OMB-01 L-01 INR-05
NSC-06 CIAE-00 DODE-00 PA-01 SP-02 PM-03 NSAE-00
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C O N F I D E N T I A L CAIRO 13572

LIMDIS

E.O. 11652: GDS
TAGS: EFIN, EIAD, IMF, EG
SUBJ: GOE-IMF NEGOTIATIONS

REF: CAIRO 13476

1. SUMMARY: IN OFF-RECORD DISCUSSION WITH EMBOFF MAY 23, IMF DELEGATION MEMBER CONCURRED WITH EL SAYEH'S ASSESSMENT- THAT EXTENDED FUND FACILITY IS PROBABLY IN OFFING (REFTEL)) BUT CAUTIONS THHT GOE MAY NOT REALIZE FULL IMPLICATIONS OF REFORM UNDERTAKINGS. END SUMMARY.

2. EMBOFF HAD OCCASION TO DISCUSS STATUS IMF NEGOTIATIONS WITH IMF TEAM MEMBER BLALOCK ON MAY 23. (NOTE: DUE TO IMF SENSITIVITIES ABOUT RELATIONYE WITH EMBASSY, SOURCE SHOULD BE STRICTLY PROTECTED AND INFO CONTAINED HEREIN DISCUSSED ONLY WITHIN AUG.) BLALOCK CONFIRMED THAT NEGOTIATIONS BETWEEN GOE AND FUND ARE PROGRESSING RELA- TIVELY WELL, BUT NOTED GOE APPEARS MORE ANXIOUS TO SIGN AGREEMENT FOR PUBLIC RELATIONS IMPACT THAN TO COMMIT GOVERNMENT TO SPECIFIC REFORMS. SOURCE EVIDENTLY BELIEVES NEGOTIATIONS HAVE BEEN SOMEWHAT HAMPERED BY ABSENCE OF KAISSOUNI, WHO WAS HIGHLY KNOWLEDGEABLE ON DETAILS OF CONFIDENTIAL

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PROPOSED REFORM PACKAGE AND PROBABLE EFFECT ON ECONOMY. REMAINDER OF GOE ECONOMIC TEAM APPARENTLY LESS ARTICULATE ON TECHNICALITIES. AS RESULT, FUND HAS GROWING CONCERN THAT GOE WOULD ACCEPT ANY MULTI-YEAR FORMULA WITHOUT FOCUSING FULLY ON REQUIREMENTS EGYPT MUST FULFILL DURING IMPLEMENTATION.

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3. SOURCE CONCEDED THAT IMF REVIEW OF INDUSTRIAL PRICE STRUCTURE NOW PARALLELS EARLIER EGYPTIAN ASSESSMENT THAT - SIGNIFICANT INDUSTRIAL PRICE INCREASES WERE UNDERTAKEN IN CY 1978 BY GOE. THESE SHOULD IMPACT RELATIVELY SUBSTANTIALLY, REDUCING PRICE DISTORTIONS IN CERTAIN ECONOMIC SECTORS, MOST NOTABLY CONSTRUCTION AND

MANUFACTURE OF INDUSTRIAL CHEMICALS AND PHARMACEUTICALS. ON OTHER HAND, BLALOCK STRESSED THAT IMPRESSION (HELD TOSOME EXTENT BY BOTH EGYPTIANS AND DONORS) OF IMF AS OGRE IN INFLATIONARY SETTING WHICH HAS BEEN RECENTLY PUBLICIZED, IS MISLEADING. EGYPT HAS HISTORICALLY PURSUED INFLATIONARY FISCAL AND MONETARY POLICIES, HE SAID, RUNNING UP "HUGE" BUDGET DEFICITS AND ALLOWING MONEY SUPPLY TO EXPAND AT A RAPID RATE. IMF TEAM INDICATES 1977 MONEY SUPPLY GROWTH WAS PROBABLY IN NEIGHBORHOOD OF 35 PER CENT AND 1978 SHOWS NO DECREASE IN RATE. THESE FACTORS CANNOT HELP BUT EXACERBATE INFLATIONARY PRESSURES IN ECONOMY COMPLICATED BY EGYPTIANS OWN PROCLIVITY FOR CONSUMPTION AND THEIR SUPPLEMENTAL DISPOSABLE INCOMES GAINED THROUGH INCREASING EXPATRIATE TRANSFERS FROM NATIONALS EMPLOYED ABROAD.

4. ACCORDING BLALOCK, TEAM VIEWS ITS ROLE AS PRIMARILY EDUCATIONAL AND FUND'S GOAL SHOULD BE TO ASSIST GOE IN DEVELOPING A COHERENT LONG-TERM ECONOMIC POLICY.
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POLITICAL PRESSURES FROM DONORS ON GOE TO IMPLEMENT EXTENDED FUND FACILITY OR SECOND STANDBY BEFORE CONSULTA-TIVE GROUP MEETING ARE RELATIVELY MEANINGLESS IN HIS OPINIQN UNLESS EGYPTIANS FULLY COGNIZANT OF EFFORT REQUIRED TO ACCOMPLISH LONG-SOUGHT ECONOMIC REFORM.

5. BLALOCK STRESSED THAT TEAM'S TECHNICAL (ONCERNS WILL PROBABLY BE OVERCOME DURING COURSE OF FURTHER DISCUSSIONS BECAUSE EGYPTIANS VERY MUCH DESIRE AGREED POSITION WITH IMF. NONETHELESS, IMF TEAM BELIEVES THAT SECOND ONE-YEAR STANDBY MIGHT WELL BE FALLBACK POSITION IF FUND FEELS THERE IS BASIC LACK OF UNDERSTANDING ON PART OF EGYPTIANS REGARDING COMMITMENTS FOR IMPLEMENTA-TION OF EXTENDED FUND FACILITY. FUND FACILITY, WHICH HAS BEEN PUBLISHED IN PRESS OVER LAST FEW DAYS AS $800 - $900 MILLION, WILL, ACCORDING BLALOCK, MORE LIKELY BE IN NEIGHBORHOOD OF $700 - $750 MILLION.

6. COMMENT: IN SUBSEQUENT DISCUSSION OF EMBOFFS MAY 24 WITH SENIOR MINFIN OFFICIALS, EGYPTIANS REITERATED WIDESPREAD UPBEAT ATTITUDE AND INDICATE THEY BELIEVE EXTENDED FUND FACILITY AGREEMENT WOULD BE SIGNED LATE

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THIS WEEK OR EARLY NEXT WEEK. MATTHEWS

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